



chair **John Chiang**  
member **Judy Chu, Ph.D.**  
member **Michael C. Genest**

State of California  
**Franchise Tax Board**

03.27.2008

To: Interested Parties

Results of Interested Parties Meeting - Proposed Regulations 25111 and 25113 (Water's-Edge) March 25, 2008

Dear Interested Parties:

The Department would like to thank you for participating in our interested parties meeting held at Franchise Tax Board on March 25, 2008, relating to amending Regulation section 25111 and drafting a regulation under Revenue and Taxation Code section 25113. We appreciate all of your questions, comments, and feedback and for making this meeting successful.

As a follow-up to the interested parties meeting, staff has provided links to two items that were used in the interested parties. Staff proposed and the participants agreed that Regulation section 25111 should remain on the books currently with additional language explaining the effect of an election made under that section for years after January 1, 2003. In addition, it was agreed that a regulation under Revenue and Taxation Code section 25113 could start with the current Regulation section 25111 with all irrelevant parts deleted. Staff also provided a more comprehensive list of items that probably should be included in a regulation under Revenue and Taxation Code section 25113 (the Discussion Points.) Please find those documents by clicking on the following links:

[\[Proposed Language from 25111\]](#)

[\[Discussion Points\]](#)

Staff would like any comments or suggestions you may have concerning specific items from the attached documents or your own experience with Revenue and Taxation Code section 25113. Specifically, staff and the participants discussed the need for public input in two areas:

1. When should the business assets be valued? The "business asset test" is used for several purposes in Revenue and Taxation Code section 25113 to determine whether a water's-edge election remains in effect in cases where there is a new unitary affiliate group and to determine the commencement date in cases where there is a new unitary affiliate group.

2. What time frame should apply for taxpayers to request terminations or re-elections?

It was agreed that input should be provided within six weeks of the date of the interested parties meeting or by May 6, 2008. Input should be provided to Karen Smith at:

Email: [Karen.Smith@ftb.ca.gov](mailto:Karen.Smith@ftb.ca.gov)

Mailing Address: Legal Division (MS A260), P.O. Box 1720, Rancho Cordova, CA 94751-1720

If anyone would like electronic copies (in Word) of the documents provided in the above links, please email your request to Karen Smith or Colleen Berwick at [Colleen.Berwick@ftb.ca.gov](mailto:Colleen.Berwick@ftb.ca.gov).

Sincerely,

Karen D. Smith  
Tax Counsel IV  
Franchise Tax Board, Legal Division